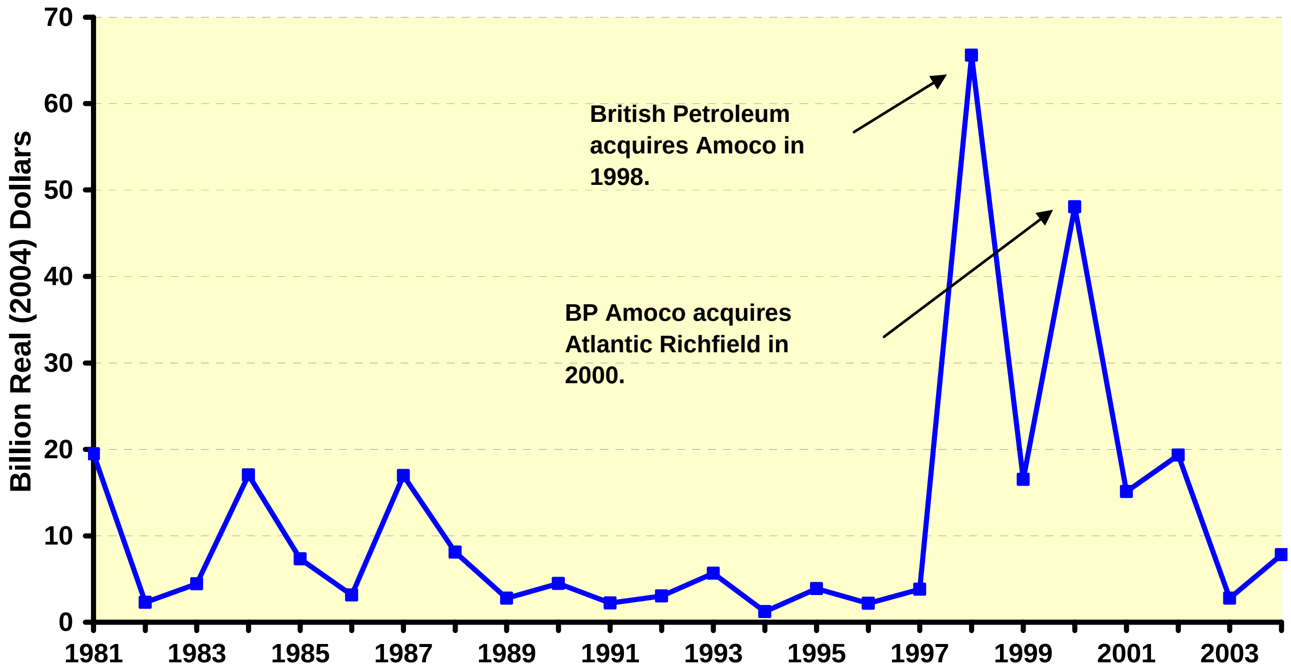
Foreign Direct Investment Acquisitions and Divestitures for the Year 2004

Direct Acquisitions of U.S. Energy Assets by Foreign Investors Rebound in 2004, but Still Below Recent Average

Total direct acquisitions of energy assets in the United States by foreign investors rose to $7.8 billion in 2004 but remained substantially below the average from 1998 through 2003 (see Figure 1).[1] Direct acquisitions of U.S. energy assets by foreign investors have been exhibiting large year-to-year fluctuations in recent years, primarily because of two very large transactions in 1998 and 2000 and several other large deals near $10 billion. While 2004 did not yield any acquisitions greater than $2.7 billion, the year's total value was still three times more than the level in 2003. For all energy and non-energy industries combined, the total value of within U.S. and U.S. cross-border mergers and acquisitions rose 55 percent to $823 billion in 2004.[2] Direct acquisitions by foreign investors are purchases, made directly or indirectly by the initial foreign direct investor, which result in the investor owning 10 percent or more of the voting securities of an incorporated U.S. business enterprise or the equivalent interest in an unincorporated U.S. business.[3]

Figure 1. Value of Direct Acquisitions in U.S. Energy by Foreign Investors, 1981-2004



Note: Beginning in 2002, only acquisitions and divestitures greater than $100 million are included in the totals in this figure.

Sources: **2004:** Table 2. **1981-2003:** Energy Information Administration, "After Five Years of Elevated Activity, Direct Acquisitions of U.S. Energy Assets by Foreign Investors Collapse in 2003," Figure 1, http://www.eia.doe.gov/emeu/finance/fdi/adindex.html, June 29, 2005.

The distribution of the direct acquisitions of assets by foreign investors among the different sectors of the U.S. energy industry shifted in 2004. After two years with little activity, oil and gas production regained its usual position as the leading sector for direct acquisitions (see Table 1). The electric power segment and the petroleum refining and marketing combined with mid/downstream natural gas segment also exhibited increased activity by foreign investors.[4] Coal recorded its fifth straight year of no substantive direct acquisitions by foreign investors. Across all sectors, the top five direct acquisitions were by Canadian companies.

Table 1. Value of Direct Acquisitions and Divestitures of U.S. Energy Assets by Foreign Investors, 1995-2004
(Million Current Dollars)

	1995	1996	1997	1998	1999	2000	2001	2002[b]	2003[b]	2004[b]
Acquisitions										
Oil and Gas Production[a]	2,570	368	1,386	53,892	369	31,373	12,579	809	386	3,875
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	706	1,302	463	3,167	336	717	1,072	8,196	1,584 [c]	1,994
Coal	0	204	99	400	1,100	0	0	0	0	0
Electric Power	0	0	1,390	536	13,003	11,964	515	9,447	724 [c]	1,937
Total Acquisitions	3,276	1,874	3,338	57,995	14,808	44,054	14,166	18,451	2,694	7,806
Divestitures										
Oil and Gas Production[a]	699	660	340	585	1,072	11,387	2,319	0	1,998	464
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	167	802	959	881	1,272	895	1,798	1,629	0	2,207
Coal	110	0	47	2,312	0	0	0	0	738	1,594
Electric Power	NA	NA	528	0	60	4,329	0	2,723	459	0
Total Divestitures	976	1,462	1,874	3,778	2,404	16,611	4,117	4,351	3,195	4,265

[a]Includes integrated petroleum companies and oilfield services companies.

[b]Beginning in 2002, only acquisitions and divestitures greater than $100 million are included in this table. In 2002, all acquisitions less than or equal to $100 million totaled $332 million and all divestitures less than or equal to $100 million totaled $135 million.

[c]Includes half of an acquisition that was in both midstream natural gas and electric power.

NA = Not available.

Pacific Resources' acquisition of Norcen Energy Resources (Canada) because most of Norcen's assets were not in the United States and an estimate of the purchase price of Norcen's U.S. assets was not available. Totals calculated from unrounded data.

Sources: **2004:** Tables 2 and 3. **1995-2003:** Energy Information Administration, "After Five Years of Elevated Activity, Direct Acquisitions of U.S. Energy Assets by Foreign Investors Collapse in 2003," Table 1, http://www.eia.doe.gov/emeu/finance/fdi/adindex.html, June 29, 2005.

Direct divestitures of U.S. energy assets by foreign investors also increased in 2004 (see Table 1). Direct divestitures were led by the petroleum refining and marketing combined with mid/downstream natural gas segment, with one refinery and several pipeline divestitures. Divestitures of coal assets more than doubled, with the owners of the 2nd and 3rd largest foreign-owned producers selling their U.S. properties. Foreign investors also sold two small bundles of oil and gas production assets.

A list of publicly reported direct acquisitions and divestitures of U.S. energy assets by foreign investors in 2004 valued at greater than $100 million can be found in Table 2 and Table 3.

Major Acquisitions

- **EnCana Expands Natural Gas Activity in United States.** The largest direct acquisition of U.S. energy assets by a foreign investor in 2004 was EnCana's (Canada) $2.7 billion (including some Canadian assets and $400 million in assumed debt) purchase of Tom Brown, a Denver-based exploration and production company. Tom Brown had proved reserves of 1.2 trillion cubic feet of natural gas equivalent, 92 percent of which was natural gas, with operations in the Rocky Mountains, Texas, and western Canada. EnCana is

Canada's largest producer of natural gas. In conjunction with the Tom Brown acquisition, EnCana planned to sell mature production assets located in western Canada. By the time the Tom Brown acquisition was completed, EnCana had hedged oil and gas volumes equivalent to the forecast production of Tom Brown through 2006. EnCana (as one of its predecessors, Alberta Energy) began expanding into the United States in 2000, with its purchase of McMurry Oil.

Table 2. Completed Direct Acquisitions of U.S. Energy Assets by Foreign Investors, 2004*

Acquiring Foreign Parent Company (Country)	U.S. Subsidiary**	Company or Asset Being Acquired	Business of Acquired Company or Asset	Divesting U.S. Parent Company	Estimated Asset Value (million $)	Closing Month
EnCana (Canada)	EnCana Oil & Gas (USA)	Tom Brown	oil & gas production	Tom Brown	2,706 [a]	May
TransCanada	-	Gas Transmission Northwest	natural gas pipeline	National Energy & Gas Transmission	1,728	November
Ontario Teachers' Pension Plan (Canada)	Northern Star Generation	25 power plants	power generation	El Paso	920	various
Brascan (Canada)	-	hydroelectric & cogeneration power plants	power generation	Reliant Energy	874	September
Petro-Canada	Raven Acquisition	Prima Energy	oil & gas production	Prima Energy	534	July
LUKoil (Russia)	Getty Petroleum Marketing	779 gasoline stations	petroleum marketing	ConocoPhillips	266	May
EnCana (Canada)	-	natural gas properties	oil & gas production	Progress Energy	251	December
Worley (Australia)	Apollo	Parsons E&C	oilfield services	Parsons	245	November
Centrica (United Kingdom)	-	Bastrop Energy Center	power generation	FPL	143	April
Provident Energy (Canada)	-	Breitburn Energy	oil & gas production	Breitburn Energy	139	June

*Includes only transactions valued at $100 million or greater.
**If available.
[a]Includes oil and gas properties in Canada.

- **TransCanada Buys Two U.S. Natural Gas Pipelines.** As part of its continuing expansion in the United States, TransCanada purchased the Gas Transmission Northwest Corporation from National Energy & Gas Transmission (formerly PG&E National Energy) for $1.7 billion, including $500 million in assumed debt. The Gas Transmission Northwest Corporation owned and operated the North Baja and the Gas Transmission Northwest natural gas pipeline systems. The latter is a 1,350-mile-long system running from the Canada-Idaho border to the Oregon-California border serving the Pacific Northwest, California, and Nevada, while the former is an 80-mile system from Arizona to the Mexico-California border serving Northern Baja California. The purchase was part of the bankruptcy proceedings that Gas Transmission Northwest Corporation emerged from in October.

Table 3. Completed Direct Divestitures of U.S. Energy Assets by Foreign Investors, 2004*						
Divesting Foreign Parent Company (Country)	**U.S. Subsidiary****	**Company or Asset Being Divested**	**Business of Divested Company or Asset**	**Acquiring U.S. Parent Company**	**Estimated Value (million $)**	**Closing Month**
RAG (Germany)	RAG American Coal	RAG American Coal	coal mining	First Reserve, Blackstone, and American Metals & Coal International	995	July
Royal Dutch/Shell (Netherlands & United Kingdom) & Saudi Arabian Oil	Motiva Enterprises	Delaware City refinery	petroleum refining	Premcor	892	May
Royal Dutch/Shell (Netherlands & United Kingdom)	Shell Oil Products	Midwest refined products pipeline	petroleum pipelines	Buckeye Partners	517	October
Royal Dutch/Shell (Netherlands & United Kingdom)	Shell Oil Products	Mid-Continent refined products pipeline	petroleum pipelines	Magellan Midstream	490	October
RAG (Germany)	RAG American Coal	Twentymile Mine in Colorado	coal mining	Peabody Energy	191	April
RWE (Germany)	CONSOL Energy	CONSOL Energy	coal mining	private placement	296	February
EnCana (Canada)	-	New Mexico Properties	oil & gas production	Magnum Hunter Resources	239	August
Nuon (Netherlands)	North Coast Energy	North Coast Energy	oil & gas production	EXCO Resources	225	January
Royal Dutch/Shell (Netherlands & United Kingdom)	Shell Pipeline	Capline Pipeline (22%) & Capwood Pipeline (76%)	petroleum pipelines	Plains All American	158	March
Alon Israel Oil	Alon USA	2 pipeline systems in Texas and Oklahoma	petroleum pipelines	Holly	150	February
Itochu (Japan)	Canyon Fuel (35 percent)	Canyon Fuel	coal mining	Arch Coal	112	July

*Includes only transactions valued at $100 million or greater.

**If available.

Major Divestitures

- **RAG Exits U.S. Coal Production.** The largest direct divestiture of U.S. energy assets by a foreign investor in 2004 was RAG's (Germany) sale of RAG American Coal to a U.S. private equity consortium for $995 million. The consortium, Foundation Coal, which later was taken public, was composed of First Reserve Corporation, a private equity firm that invests in energy companies, The Blackstone Group, a private investment fund, and American Metals & Coal International, a privately owned company with interests in coal operations in the United States and Australia. This transaction is indicative of the increased interest of the financial industry in investing in energy assets. Earlier in the year, RAG sold its Twentymile Mine in Colorado to Peabody Energy.

Endnotes

[1] EIA issues an update of direct acquisitions and divestitures of U.S. energy assets by foreign investors each year. The information presented here is derived from company reports and press releases, industry publications, The Online Transaction Roster maintained by FactSet Mergerstat, and company filings with the U.S. Securities and Exchange Commission. Because not all acquisitions and divestitures of private assets necessarily become public knowledge, the set of transactions reported here may be incomplete. The Energy Information Administration does not directly collect any data regarding these types of transactions, nor does it make any attempt to independently value them.

[2] Total value measured as base equity price offered. U.S. and U.S. Cross-Border M&A Transactions Report, FactSet Mergerstat, http://www.mergerstat.com/new/free_reports_m_and_a_activity.asp, April 25, 2006.

[3] Purchases or sales of U.S. energy businesses or assets by one foreign direct investor from or to another foreign direct investor are not included in the direct transactions discussed here. In some instances, foreign assets owned by the U.S. business that is being acquired or divested are included in the transaction amount.

[4] The value of transactions in the petroleum refining and marketing and mid/downstream natural gas sector may be understated because deals involving integrated petroleum companies, which include production and refining and marketing, are included entirely in the oil and gas production sector because the different sectors seldomly are valued separately in these transactions.